VOSS
CAPITAL

2365 Rice Blvd Suite #217 | Houston, TX | 77005 |713-328-1126 | www.vosscap.com | t@vosscap.com

Dear Partners,

In Q1 2017 the Voss Value Fund returned 3.66% to investors net of fees and expenses, compared to a 6.07% total return for the S&P 500 and 2.12% for the Russell 2000. Through the end of Q1 over the last 5.5 years we've delivered a 19.2% net CAGR while averaging a ~40% beta-adjusted net exposure and limited position concentration.

Voss Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2017			
PERIOD	VVF (Net)	VVF (Gross)	S&P 500 TR
JANUARY	0.12%	0.23%	1.90%
FEBRUARY	3.14%	4.01%	3.97%
MARCH	0.38%	0.56%	0.12%
1st QUARTER	3.66%	4.83%	6.07%
APRIL			
MAY			
JUNE			
2nd QUARTER	0.00%	0.00%	0.00%
JULY			
AUGUST			
SEPTEMBER			
3rd QUARTER	0.00%	0.00%	0.00%
OCTOBER			
NOVEMBER			
DECEMBER			
4th QUARTER	0.00%	0.00%	0.00%
YEAR TO DATE	3.66%	4.83%	6.07%

Voss Value Fund Monthly Net Returns Since Inception

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Year
2011										1.51%	-4.09%	3.17%	**0.44%**
2012	7.04%	5.72%	3.90%	-3.44%	-1.13%	-0.21%	2.26%	3.04%	-0.07%	-1.49%	1.17%	2.68%	**20.87%**
2013	7.22%	-0.18%	2.18%	-0.63%	8.80%	0.29%	3.32%	0.02%	1.55%	0.70%	3.87%	4.64%	**36.21%**
2014	-1.24%	-0.16%	6.16%	6.70%	-0.20%	-2.20%	-4.47%	0.43%	-3.82%	0.94%	2.69%	6.69%	**11.25%**
2015	-1.21%	7.65%	-1.15%	-0.49%	-0.12%	-1.91%	-2.80%	6.66%	0.22%	7.72%	-5.97%	-1.87%	**5.69%**
2016	-3.24%	6.48%	3.43%	2.59%	0.90%	1.84%	7.26%	1.86%	-1.12%	2.22%	1.21%	3.72%	**30.23%**
2017	0.12%	3.14%	0.38%										**3.66%**

All YTD performance figures are unaudited, estimated, and may be subject to subsequent adjustment. A limited partner's actual returns may vary from published fund returns based on the timing of capital and fee arrangements. This statement represents information based on the policies of the fund's managers and general partner. Please contact Travis Cocke, Managing Partner of Voss Capital, LLC, with any inquiries.

After a brief interlude of intense relative outperformance in November and December, the pendulum of factor performance has swung the other way, with small cap and value stocks significantly underperforming large caps and growth stocks in 2017. Credit Suisse's HOLT factor analysis has Momentum as a factor at +2.2% with Valuation at -2.7% and their Contrarian factor strategy is down 2.9% YTD through April, something we believe has continued into May. The index we historically have had the highest correlation to, Russell Microcap Value Index, was -1.42% for Q1 and has continued to be relatively weak. The last few weeks have not been a pleasant operating environment for us. The share prices of many companies seem as if they are simultaneously abstract reflections of their potential total addressable market and concrete manifestations of modern anti-intellectualism in action.

It feels as if sentiment schisms are widening in the market as stocks are either annointed as thematic winners with revenue growth and "vision replacing profits" (for which no valuation is too high)--*or* they are shunned as dead companies destined for terminal obsolescence, with less and less falling in between the two extremes. Similarly, retail REIT valuations have diverged based on perceived property quality. There are good reasons for this as CMBS financing is harder to come by for B-class retail properties, however, we feel the divergence has overshot creating an asymmetric investment opportunity.

New Long Investment: CBL & Associates Properties, Inc. (CBL)

Oftentimes a simplified, emotional investment narrative leads investors to forego any fundamental analysis. This is especially true later in a cycle when stocks have had well defined long term price trends and investors are feeling extra confident. It is possible further due diligence is conducted, but usually it sets out only to confirm the bias-created feeling of certainty that was derived from the short narrative. While often grounded in some "truthiness," said narratives are usually simple-minded distortions of investing's inevitable complexities. Sometimes the narrative is as short as three words: "malls are dead." This particularly relentless media narrative combined with historically cheap valuations led us to evaluate CBL, the cheapest public mall REIT.

Admittedly, we cannot provide the same brevity and vivid clarity of narrative that a darkened picture of a dilapidated retail property and those three words offer. Amassing and analyzing the relevant evidence for an informed investment decision on CBL is complicated and time consuming. As we've been digging deeper into CBL what we uncover is a more nuanced situation and one that paints a more positive picture than the one sketched by the mainstream consensus.

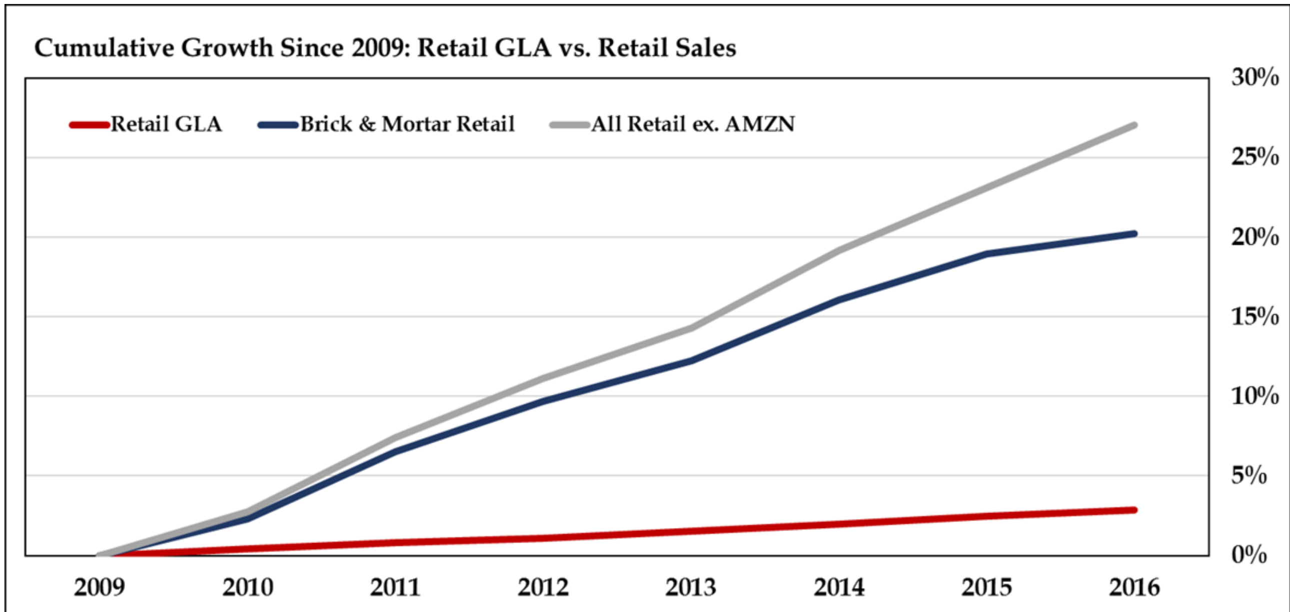
First, the media has sensationalized retailer woes amid store closures by the larger department stores who have been steadily closing stores for many years. A few other struggling or over-levered retail concepts have announced store closures or a reorganization through bankruptcy. Store closing announcements are very seasonal and weighted almost entirely in Q1. In every year since 2002 there are consistent **net** store openings in Q2-Q4, thus extrapolating the pace of closure announcements in Q1 2017 is a fundamental analytical mistake that has been repeated in dozens of articles and many sell-side research reports just in the last few weeks. The sheer repetition of this one major falsehood has been startling. This gap between reality and perception just from this one single data point is another stark reminder of the media's power to amplify and spread false information with astonishing efficiency and no accountability.

In 2016 there was +137 million square feet of net absorption (measures net change in occupancy) across retail real estate in the US, with positive absorption trends continuing into 2017 (source: CoStar).

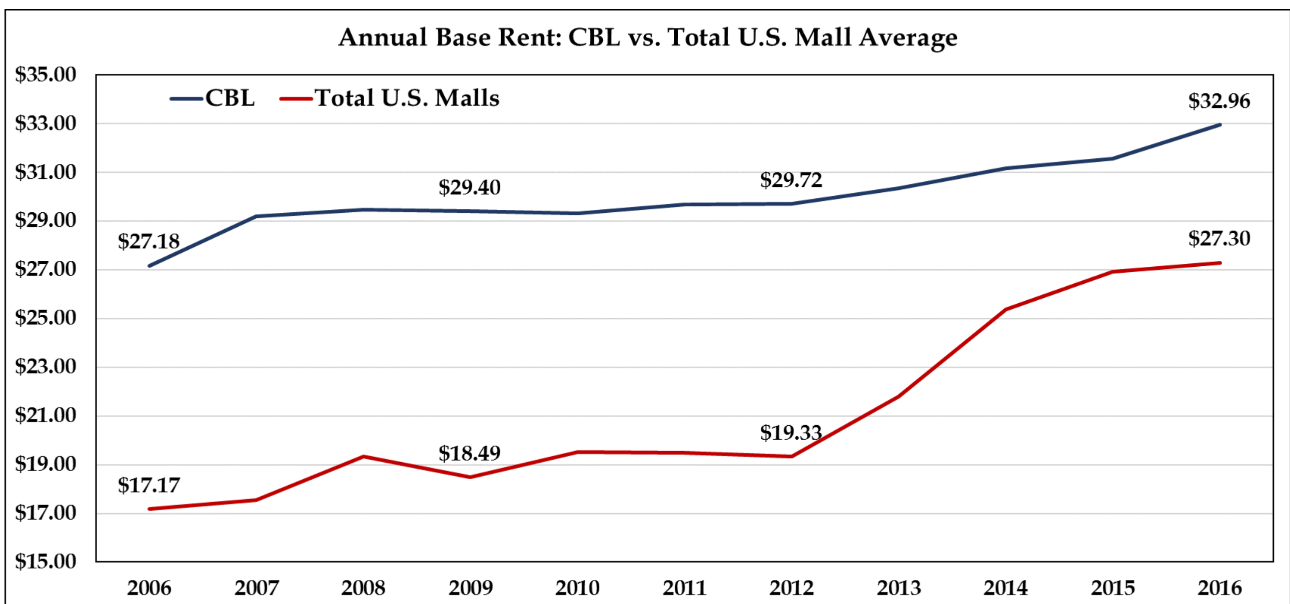
Retail GLA Supply & Demand	Square Footage Delivered	Net Absorption
Q1 2016	19,888,026	21,358,396
Q2 2016	20,747,328	45,452,991
Q3 2016	22,687,917	43,494,046
Q4 2016	20,856,071	26,910,538
2016 Total	84,179,342	137,215,971

Kimco Realty, among other public retail REITs, just reported their best quarter in the last ten years for volume of signed new leases. No one is mentioning the dozens of retail concepts (and many previously pure play eCommerce concepts) that are aggressively opening stores, which explains the massively positive net absorption of retail real estate overall.

New gross leaseable area (GLA) of retail real estate constructed and delivered has been at 50 years lows for eight years in a row, with the US adding only about 0.6% per annum in square footage (which is excluding any demolitions of older properties, thus overstating net supply deliveries). The majority of all of this new development has been open-air, small shopping center format, with only two new malls constructed since 2010. A very high proportion of the added square footage has been absorbed by restaurants and grocery stores. Additionally, almost all of the new construction has been concentrated in the top 10-25 metro areas, not in CBL's secondary and tertiary cities. Looking at retail sales occuring at brick & mortar stores, they are up by more than 20% since 2010 while retail GLA is up less than 3% cumulatively. The retail footprint in the US is quickly being rationalized and GLA per capita has declined in most cities due to the compounding effect of population growth and retail spending growth combined with lack of new construction. Many retailers that had been known as pure eCommerce players are now aggressively opening store fronts because their eCommerce operations have not been profitable since inception due to such a high and costly merchandise return rate. Also, non-Amazon eCommerce sales, which are growing more quickly overall than Amazon are typically supported their brand's by brick & mortar stores.



There has been resilient demand for CBL's retail space, as evidenced by steadily rising rents, with both new leases and renewal lease spreads remaining positive.



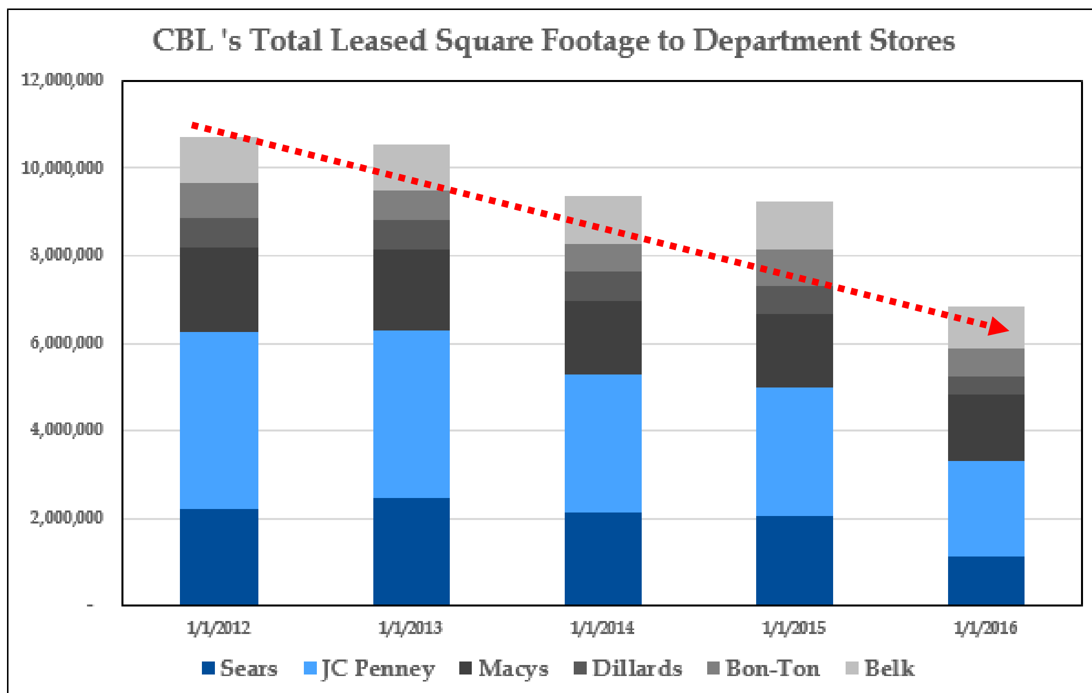
Because of the ability to keep increasing rents, CBL has grown same center NOI six years in a row and finally this year they've guided for -1.0% same center NOI growth. Hardly an armgeddon scenario.

In evaluating CBL's anchor boxes/department store exposures we find that 99% of the stores are occupied with announced closures manageable:

	Total #	# Vacant	% Vacant	Square Footage Vacant	Total GLA for Box Type	% of GLA Vacant
Anchor Boxes	262	2	0.76%	55,986	9,159,180	0.61%
Junior Anchor Boxes	123	1	0.81%	66,835	3,636,567	1.84%

CBL Tenant	# Leased	# Retailer Owned	Total	2017 Announced Closing	% Closing
JC Penney	21	30	51	1	2.0%
Sears	11	36	47	1	2.1%
Dillards	4	38	42	0	0.0%
Macy's	11	23	34	4	11.8%

Counter to the prevailing narrative, we view the lack of Sear's closures at CBL properties as unfortunate, as Sear's are not traffic drivers at the malls and they pay below average rents. Of the four Macy's closure announcements at CBL malls, only one was paying rent to CBL and that location was immediately re-leased to Dillard's. Overall, CBL's square footage leased to Sears, JC Penney, Macy's, Dillard's, Bon-Ton & Belk combined has declined by 36.1% just since 2012, with Sear's + JC Penney combined exposure declining by over 50%.

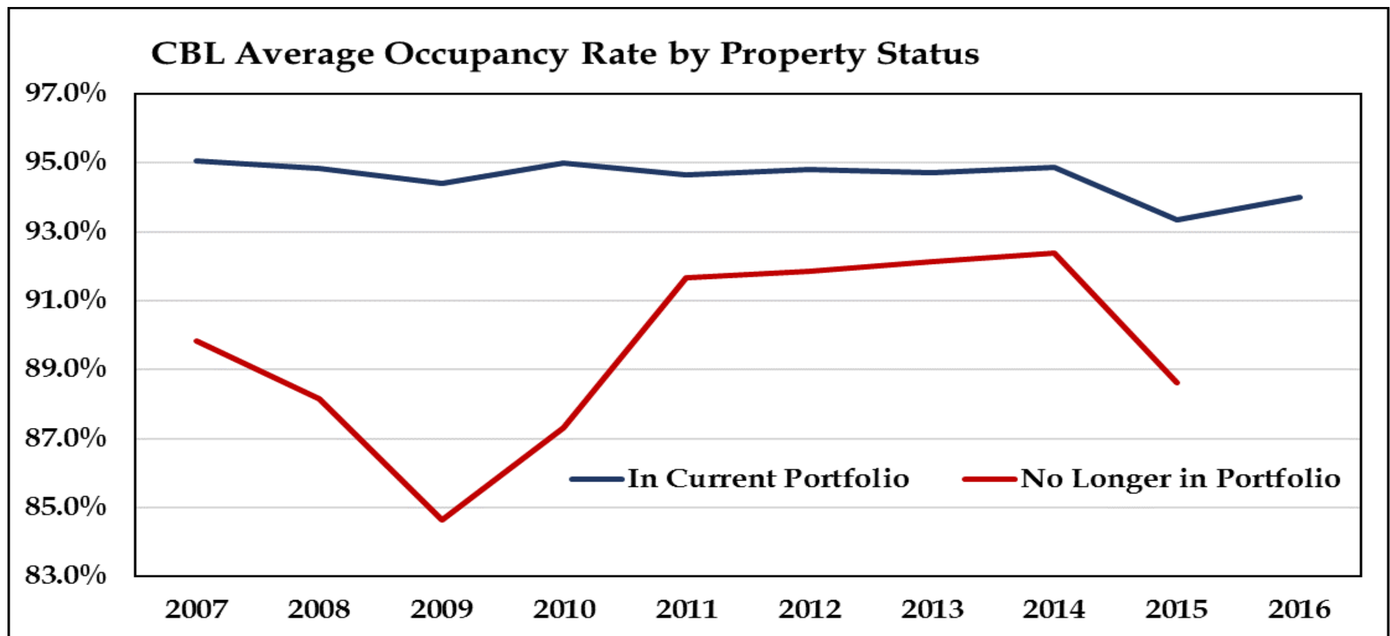


Even while these department stores have been closing en masse, CBL's key performance indicators such has same-mall NOI and occupancy rates have held up as the space has been easily re-leased at higher rents.

CBL	2013	2014	2015	2016
Same Mall NOI	0.9%	2.4%	0.7%	2.3%
Mall Occupancy	94.8%	94.9%	93.1%	94.1%

CBL is profitably re-developing and re-tenanting these former department stores, achieving 8.5% unlevered returns on capital so far over the course of 25 redevelopment projects (measured as same anchor box/property level income increase divided by total capital spent). This return does not measure the spread between the capitalized value of increased property level NOI when the total property's cap-rate is below the unlevered return, nor does it measure the potential for increased foot traffic to other mall tenants and ability to keep pushing rents up.

In 2014 CBL announced their intention to undergo a portfolio transformation, focused on jettisoning their worst quality properties. They have since sold or foreclosed on 20 tier-3 malls. We went back and recreated the occupancy performance that their current portfolio would have had going back to 2007. The current portfolio is now of much higher quality and the occupancy would have dipped only by 70 basis points from 2007 to 2009, whereas the occupancy of properties no longer owned fell by 520 basis points.

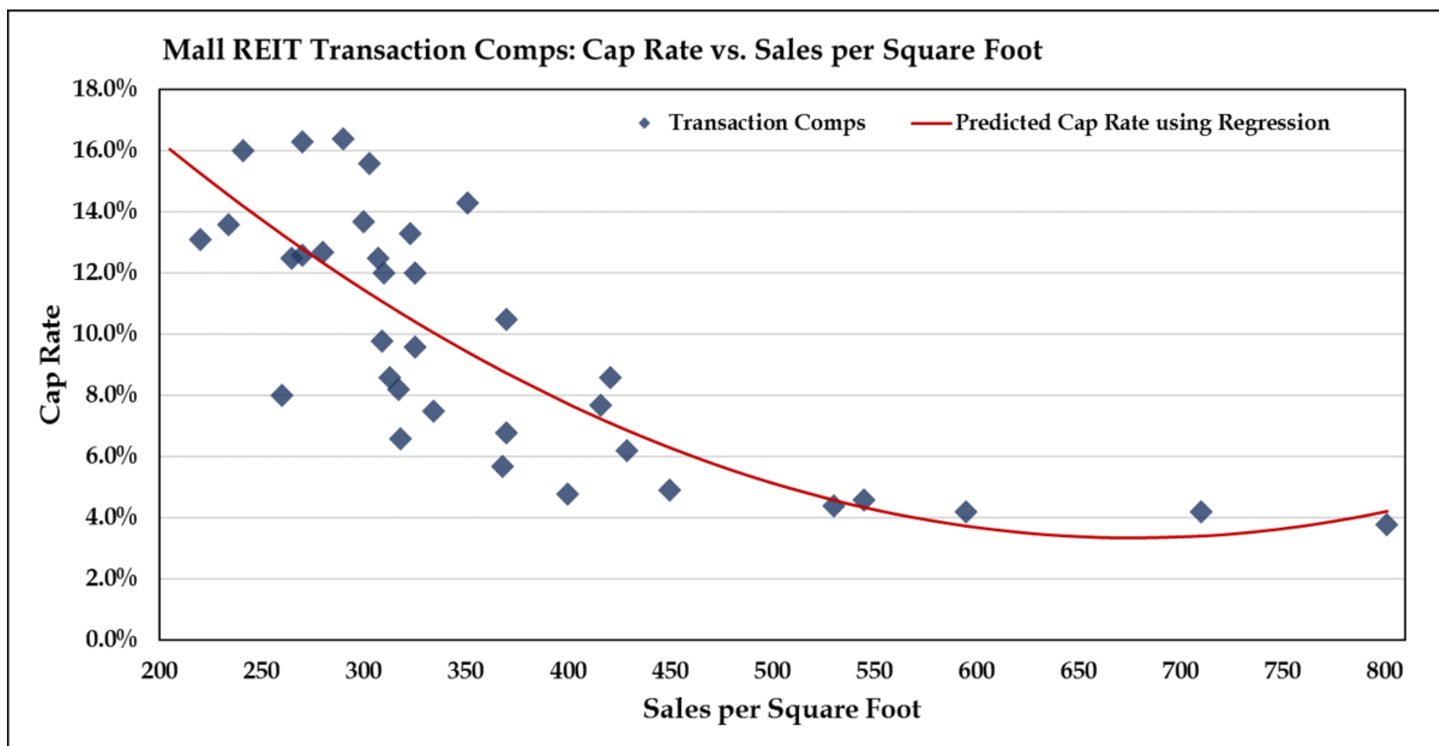


CBL's Valuation

CBL's equity has only ever been cheaper for a brief 3-5 month window in Q4 2008/Q1 2009 when its leverage was much higher and its liquidity and portfolio quality was much worse.

At $8.00 share CBL's Price/2017 Funds from Operations ratio is 3.6x, a 55% discount to its own historical average. It's EV/EBITDA ratio of 9.3x is 1.4x turns lower than the Q4 2008 trough low and the shares trade a 59% discount to the median Net Aasset Value estimate (the lowest sell side NAVPS estimate is $15.50, 93% higher).

We have data on 36 private mall sales that occurred from Q1 2016-Q1 2017 from various brokers we met with. Using this transaction data, we ran a regression to derive cap-rate estimates for CBL on a property-by-property basis based on its tenant sales per square foot (the most highly correlated metric to cap-rate in the transactions). ~75% of mall sales in our timeframe were of Tier-3 properties, so our data is skewed towards the worse malls when the market was flooded with supply, making our overall estimates more conservative.



Using our transaction comp regression gives CBL's mall portfolio an 8.9% GLA-weighted average cap rate, or 8.5% our estimated NOI-weighted average. Fetching a 9-cap valuation (which would be the equivalent of the highest cap rate/lowest valuation for malls in the last 25 years) at some point over the next two years using 2017 NOI estimates would give the stock ~110% upside, or a ~50% IRR including the dividends. This would put the stock at just 6.8x 2017 FFO estimates, which would still be 12% below their long term average. While we wait, we receive an 13.25% dividend yield with a conservative 52% FFO payout ratio.

We have another recent transaction comp for CBL thanks to Brookfield's buyout of Rouse Properties in July 2016. Rouse had a much lower quality portfolio compared to CBL and had zero NOI coming from higher value open air centers or community centers. As you can see from the table below that compares a few relevant metrics, CBL does not need to garner valuations anywhere close to what Rouse achieved in order to be a great investment.

Metric	Rouse	CBL	Difference	Upside for CBL at RSE's Takeout Value
Tenant Sales PSF	$357	$376	+$19/+5.3%	n/a
Physical Occupancy	89.3%	94.1%	+4.8%	n/a
TTM SS NOI Growth	0.8%	2.8%	+2.0%	n/a
EV/EBITDA	16.1x	9.3x	-6.8x	353%
Cap Rate	7.9%	11.4%	+3.5%	164%
EV-to-Gross PP&E value	109.3%	73%	-36.3%	200%
P/TTM FFO	12.5x	3.4x	9.1x	345%

After reviewing most of the public retail REITs, there are clear recurring themes in every management team's Q1 commentary:

- The 1st quarter and the current environment isn't anything they haven't seen before and store closure announcements are in-line with 15-year averages.
- The top tenants are just rotating, this is a cycle that needs to happen (i.e. Sports Authority fails, Dick's succeeds).
- The retailers generating the most demand for space and performing the best: TJ Maxx, Ross, Ulta, Dick's and Burlington.
- There is an ongoing tenant mix shift away from traditional apparel towards restaurants, grocers, gyms and entertainment.
- There is a clear and wide disconnect between stock valuations and private market valuations of individual properties.

The media, and thus by extension the majority of investors, seemed to have reached their conclusions before gathering the relevant data and have taken a strict black and white view of the negative fate of all shopping centers, leaving no room for doubt they are wrong. The relentless yet surface level headlines force others into unknowingly making an unsound snap judgment based on sensationalized, undigested information, undermining logic, reason, and empiricism, which are already in short supply in modern society. Obviously, very few investors are either looking at the data or reaching the same conclusions as us given this same set of information. We simply need a few large buyers (or one very large buyer) to see the value we see and prices will ultimately converge with something approaching that value at some point. Given the overwhelming quantity of negative articles chock-full of glaring analytical flaws and the raw emotional disgust elicited from investors when discussing this particular REIT niche, without a hard catalyst we realize it will be difficult to turn the tide of negative sentiment that has calcified over a period of years.

We believe there are numerous ways management can be more proactive and aggressive in accelerating the unlocking of value for all shareholders and we intend to voice these opinions. One such method would be to do the opposite of what most B-class retail REIT operators (including CBL) have been doing and that would be to sell or JV five to ten of their *highest quality* properties while demand is high and cap-rates on these properties are in the 4.50-5.50% range. Then with whatever cash remains after required dividends (they must payout 90% of net income), simultaneously/immediately launching a tender offer or accelerated buyback for shares if they languish at a 28%+ FFO yield, significantly raising the FFO per share to offset FFO dilution from asset sales. After de-levering a bit, they could also then increase the payout ratio from 52% to 60-65%, significantly increasing the dividends per share. Better yet would be for CBL to drawdown on their line of credit to buyback shares right before completing these asset sales, allowing them to rapidly de-lever again when transactions close, while having raised FFO and dividends per share by shrinking the share count while valuation is at distressed levels but without the distress. There are very few remaining large mortgage maturities over the next several years, leaving CBL with valuable put options on some of their worst properties. For the worst properties with non-recourse, individually ring-fenced mortgage debt, it is a good thing for equity holders if CBL does not sell or pay these mortgages off early and instead continues to strategically default and shed the debt.

We estimate that if CBL sold just four of their best properties (Fayette Mall, West Towne Mall, Mall del Norte, and Mayfaire Town Center) out of a total of 110, that their after mortgage payoff (three of the four are unencumbered by secured debt-it may be better to sell high quality malls that have individual mortgages), after-tax net proceeds could be in excess of $1.1 billion, or ~69% of the current market cap. By divesting just these four high quality properties we estimate that CBL would be giving up between 9-10% of their total NOI, but could pay special dividends in excess of $4 per share (on $8 stock price) even after paying their unsecured line of credit down to a zero balance[1]. Another option to create value for common shareholders would be to pay off the line of credit and redeem the high yielding (expensive cost of capital) preferred shares, of which one class is callable within a month from now. After selling those four properties, CBL would then still be left with 106 owned properties, countless non-revenue generating excess land parcels, and the highly profitable third party management fee stream. We believe the GLA weighted average cap-rate of the remaining mall portfolio would increase by 30 basis points after these sales, with the remaining malls having a gross asset value of >$7 billion. This would cover >140% of the remaining debt and is assigning no value to their 43 other properties that are not malls that garner much lower cap rates overall. The sales to enact such a plan do not ultimately need to be these four properties, nor limited to only four. We analyze and mention these properties simply to highlight the embedded value and show the return potential under such a disposition scenario. If the market assigns a >55% discount to the embedded private market value, CBL should keep selling some assets and take advantage of their overall discount by buying back stock at an implied cap-rate of ~11.4%, raising the NAV per share value, and/or by returning the cash to shareholders via

increased dividends. Management should move urgently to set this plan in action while the economy and credit markets are still strong.

In equity investing absolutes matter less than how reality compares to expectations. Where are the disconnects potentially the widest? That is where we aim to focus our time and research efforts. Given the very nature of focusing on those areas and securities with the most unrealistic optimism or pessimism baked in, our style of value investing is by definition psychologically uncomfortable. We think in the case of CBL the discomfort of our contrarian approach will pay off for our investors over the next few quarters and years.

In our experience, (in another market paradox) it often the shareholders with the highest conviction may actually know very little (ignorance breeds confidence), and yet it is the marginal buyer/seller that sets the price—helping to create bubbles and panics. This is ultimately the double-edged sword of the public equity markets, creating both the potential pain and the opportunities. Our own persistent uncertainty, both about our individual holdings and the market direction as a whole drive us to continue conducting due diligence, rigorously, and hopefully objectively. We will continue to explicitly consider a wide range of potential outcomes in our stocks and the broader market. Like our other investment theses, we will aim to treat this CBL investment as a scientist would an unproven theory—it will be modified as new data and research findings become available.

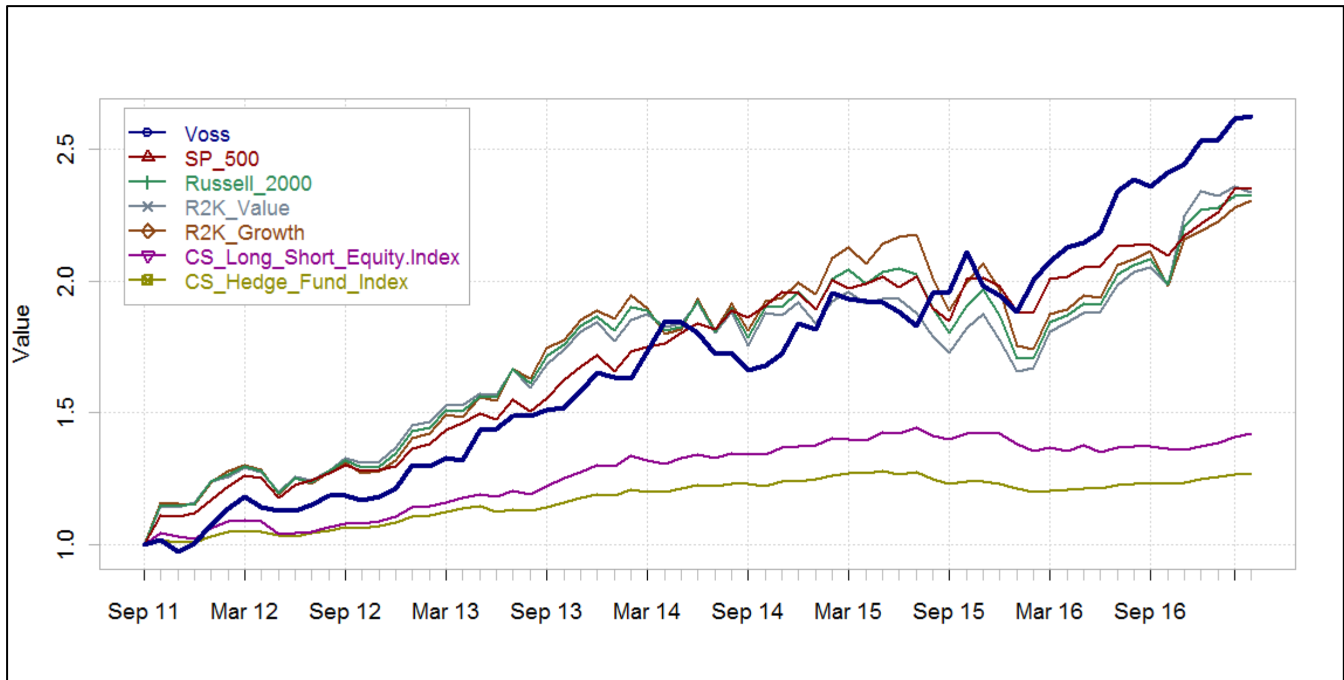
On a daily basis we are reminded that a significant majority of investors prove to be credulous and favor the abstract over the tangible, fundamentally sound investments. Because of this perpetual psychological vulnerability, "lottery premiums" are growing bigger and bigger on some story stocks (especially those that are so obviously terrible they have high short interest) as the bull market progresses, thus we think shorting in size remains dangerous. Additionally, it seems that many management teams are systematically dependent on false pretenses yet their stocks are resilient. They publicly give barefaced misrepesentations and are all too willing to embrace deceit as a fundamental aspect of their business and investor relations propaganda campaigns as they seek to take advantage of this inherent gullibility to enrich themselves. The impacts of this confluence of factors can be corrosive for fundamentally oriented short sellers like us who to try to affix analytical, empirical assessments onto irrational situations. Even as our negative fundamental views may in fact be playing out, the stock price reactions are unpredictable so we bide our time waiting to take gross short exposure back up (while substituting exposure with cheap put options), on individual names and as a whole, when explosive price momentum subsides and behavior is less erratic. Rising investor confidence in a mature bull market, no matter how unjustified, has historically coincided with big returns and it can endure for a while before bubbling into a bull-market ending euphoria.

To continued alpha,

Travis

<table>
<tr><th colspan="4">Portfolio Composition</th><th colspan="5">Net Returns</th></tr>
<tr><th></th><th>Average</th><th>Median</th><th>Current</th><th></th><th>1-Yr Return</th><th>3-Yr CAGR</th><th>5-Yr CAGR</th><th>Net CAGR Since Inception</th></tr>
<tr><td># of Longs</td><td>38</td><td>39</td><td>33</td><td>Voss Value Fund</td><td>26.7%</td><td>14.9%</td><td>17.3%</td><td>19.2%</td></tr>
<tr><td># of Shorts</td><td>20</td><td>22</td><td>15</td><td>S&P 500 TR</td><td>17.2%</td><td>10.4%</td><td>13.3%</td><td>16.8%</td></tr>
<tr><td>Gross Exposure</td><td>127.8%</td><td>131.30%</td><td>128.0%</td><td colspan="5">Median Market Cap: $426 million (longs)/ $1.84 billion (shorts)</td></tr>
<tr><td>Net Exposure</td><td>71.8%</td><td>71.3%</td><td>89.3%</td><td colspan="5">All data as of 03/31/2017</td></tr>
</table>

Chart showing cumulative growth of $1 invested (Voss returns shown net of fees and expenses):



1: Using an estimated line of credit balance of $198.6mm. $252.1mm balance at Q1 end minus $53.5 million of subsequent paydown from the sale of two Tier-3 malls, College Square Mall and Foothills Mall, that just closed in early May.

<u>Disclosures and Notices:</u> The information contained herein reflects the opinions and projections of Voss Capital, LLC ("Voss") as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Voss does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. This communication is confidential and may not be reproduced or distributed without prior written permission from Voss. This confidential report is only intended for the recipient and may not be redistributed without the prior written consent of Voss Capital, LLC. This report is provided for informational purposes only and does not constitute an offer or a solicitation to buy, hold, or sell an interest in any Voss Value Funds or any other security. An investment in any Voss Value Fund is speculative and involves substantial risks. Additional information regarding the Voss Value Funds listed herein, including fees, expenses and risks of investment, is contained in the offering memorandum and related documents, and should be carefully reviewed. An offer or solicitation of an investment in any Voss Value Funds will only be made pursuant to an offering memorandum. There can be no guarantee that any Voss Value Fund will achieve its investment objectives. **Past performance does not guarantee future results.**